

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-09 FRB-01 INR-07 IO-10 NEA-10 NSAE-00 OPIC-06

SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01 OMB-01 XMB-04

FEAE-00 PA-02 PRS-01 USIA-15 AF-06 ARA-10 EURE-00

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P R 251050Z AUG 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2721

INFO USMISSION EC BRUSSELS

AMCONSUL MILAN

AMCONSUL NAPLES

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 ROME 12143

PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: COLOMBO INTERVIEW ON INTERNATIONAL MONETARY AND  
OTHER ISSUES

1. /SUMMARY/. "CORRIERE DELLA SERA" ON AUGUST 24 PUBLISHED  
INTERVIEW WITH TREASURY MINISTER EMILIO COLOMBO DEALING WITH  
FOLLOWING QUESTIONS: (A) COORDINATION OF EC RECOVERY MEASURES,  
(B) COMMON EC POSITION ON INTERNATIONAL MONETARY REFORM, (C)  
FIXED VS. FLOATING EXCHANGE RATES, (D) ITALIAN POSITION ON ROLE  
OF GOLD, (E) CONFORMITY OF ITALIAN ANTI-RECESSION PACKAGE WITH  
EC RECOMMENDATIONS, AND (F) ITALIAN INTEREST RATE LEVELS.  
THERE WAS RELATIVELY LITTLE NEW IN COLOMBO'S REPLIES TO QUESTIONS  
POSED, BUT THEY DO PRESENT UP-TO-DATE PICTURE OF ITALIAN POSITION  
AND OF EC POSITION ON INTERNATIONAL MONETARY QUESTIONS AND ON  
COORDINATION OF NATIONAL ECONOMIC POLICIES ON EVE OF IMPORTANT  
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EC MINISTERS OF FINANCE MEETING IN VENICE (COLOMBO PRESIDED)

AND OF IMF/IBRD ANNUAL MEETINGS IN WASHINGTON.

FOLLOWING IS TEXT OF INTERVIEW. /END SUMMARY/.

2. /COORDINATION OF EC RECOVERY MEASURES/. /Q/. AT VENICE THERE WILL BE DISCUSSED THE RECOVERY OF THE EUROPEAN ECONOMY, WHICH HAS SUFFERED FROM ONE OF THE MOST SERIOUS RECESSIONS IN THIS CENTURY FOLLOWING THE PETROLEUM CRISIS. DOES THERE EXIST, AND IF SO TO WHAT EXTENT, A COMMON FINANCIAL POLICY IN THE EC? /A/. FOR YEARS EVERYONE HAS AGREED ON THE NEED FOR CLOSE COORDINATION OF ECONOMIC AND MONETARY POLICIES IN THE COMMUNITY. UNFORTUNATELY, THIS HAS NOT BEEN ACHIEVED TO THE EXTENT HOPED FOR. UNDOUBTEDLY AN IMPORTANT EXCEPTION IS NOW BEING MADE AS SHOWN BY DEVELOPMENTS WHICH HAVE OCCURRED IN RECENT WEEKS. IN FACT, SEVERAL EUROPEAN COUNTRIES, PARTICULARLY GERMANY, FRANCE AND ITALY, HAVE AGREED JOINTLY TO STIMULATE DOMESTIC DEMAND IN THEIR ECONOMIES. THIS WILL MAKE IT POSSIBLE TO AVOID NEGATIVE REPERCUSSIONS ON THEIR BALANCE OF PAYMENTS, EMPLOYMENT LEVEL AND GENERAL ECONOMIC DEVELOPMENT POSITIONS. THIS IS ESPECIALLY TRUE FOR ITALY, HAD IT ATTEMPTED TO TAKE STIMULATIVE MEASURES IN ISOLATION AND ON A DIFFERENT TIME SCHEDULE.

3. /COMMON EC POSITION ON INTERNATIONAL MONETARY REFORM/. /Q/. IN THE PAST THERE HAS ALSO BEEN A LACK OF IDENTITY OF VIEWS AMONG WESTERN COUNTRIES WITH REGARD TO REFORM OF THE INTERNATIONAL MONETARY FUND. THE UNITED STATES HAS FOUGHT TO PRESERVE A QUOTA SUFFICIENT TO GUARANTEE ITS "VETO" OVER ANY IMF DECISION. THE DEVELOPING COUNTRIES, ON THEIR PART, WANT A GREATER VOICE. WILL EUROPE SUCCEED IN EXPRESSING A COMMON POSITION, ALSO AS CONCERNS THE PROBLEM OF THE USE OF IMF GOLD? /A/. WITHOUT A DOUBT THE COMMUNITY SHOULD BE ABLE TO DEVELOP A COMMON POSITION ON THE MOST IMPORTANT PROBLEMS OF MONETARY REFORM, THUS PRESENTING A UNITED FRONT AT THE ANNUAL MEETINGS OF THE IMF AND OF THE WORLD BANK TO BE HELD IN WASHINGTON DURING THE FIRST FEW DAYS OF SEPTEMBER. IN PARTICULAR, I BELIEVE THAT THE COMMUNITY WILL EXPRESS ITSELF IN FAVOR OF THE MOBILIZATION OF GOLD RESERVES ALONG THE LINES THAT I OUTLINED NOT LONG AGO, AND IN FAVOR OF THE SALES IN THE MARKET OF ONE-SIXTH OF FUND GOLD. THIS WOULD PERMIT THE UNCLASSIFIED

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ALLOCATION OF THREE BILLION DOLLARS IN FAVOR OF THE DEVELOPING COUNTRIES. IN ADDITION, THE SAME AMOUNT SHOULD BE RESTORED TO THE MEMBER COUNTRIES ON THE BASIS OF THEIR QUOTAS IN THE IMF, LEAVING THE REMAINING TWO-THIRDS WITH THE FUND ITSELF. WITHOUT A DOUBT, THERE SHOULD ALSO BE A JOINT EC POSITION WITH REGARD TO THE ALLOCATION OF QUOTAS. THIS WOULD IMPLY A RELATIVE DECLINE IN THE QUOTA OF INDUSTRIALIZED COUNTRIES, MAINLY IN FAVOR OF THE PETROLEUM-PRODUCING COUNTRIES. THE

PROBLEM OF VETO POWER, WHICH FOR MANY IMPORTANT IMF DECISIONS IS 20 PERCENT, NO LONGER EXISTS IN PRACTICE, SINCE ALL AGREE ON THE DESIRABILITY OF INCREASING THE QUALIFIED MAJORITY FROM 80 TO 85 PERCENT. IN OTHER WORDS, THE UNITED STATES AND THE EC WOULD PRESERVE THEIR VETO POWER. HOWEVER, THE COMMUNITY HAS NOT REACHED AN AGREEMENT ON THE FUTURE FOREIGN EXCHANGE RAGIME.

4. /FIXED VS. FLOATING EXCHANGE RATES/. /Q/. FIXED EXCHANGE RATES FACILITATE INTERNATIONAL TRADE, BUT OFTEN BECOME UNDEFENSIBLE BY THE MONETARY AUTHORITIES. WHAT IS ITALY'S POSITION: FIXED RATES OR FLOATING RATES? /A/. FOR SOME TIME WE HAVE HELD THAT THE CHOICE OF AN EXCHANGE RATE REGIME DEPENDS CRUCIALLY ON THE DEGREE OF CONVERGENCE OF ECONOMIC AND MONETARY POLICIES AMONG THE PRINCIPAL COUNTRIES. IT IS ENOUGH TO LOOK AT THE GREAT DIFFERENCES IN RATES OF INFLATION FROM COUNTRY TO COUNTRY TO UNDERSTAND THAT, IN THE CURRENT.....

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PASS TREASURY AND FRB

.....IN THE CURRENT  
SITUATION, NO OTHER POSITION IS POSSIBLE THAN THE PRESENT  
ONE, I.E., FLOATING RATES. NATURALLY, OUR OBJECTIVE REMAINS  
AN INTERNATIONAL MONETARY SYSTEM BASED ON "FIXED BUT ADJUSTABLE"  
RATES. IN ORDER TO BE ABLE TO INTRODUCE THEM, GREATER  
COORDINATION OF NATIONAL ECONOMIC POLICIES WILL BE INDISPEN-  
SABLE. OF COURSE, THIS DOES NOT MEAN THAT THE PRESENT  
EXCHANGE RATE REGIME CANNOT BE IMPROVED UPON BY COORDINATING  
ADEQUATE AMOUNTS OF INTERVENTION, ESPECIALLY BETWEEN THE EC  
SNAKE AND THE DOLLAR, IN ORDER TO ASSURE THAT FLUCTUATIONS  
ARE MODERATE.

5. /ITALIAN POSITION ON ROLE OF GOLD/ /Q/. ITALY IS ONE OF  
THE COUNTRIES WHICH HAS THE HIGHEST PORTION OF GOLD IN ITS  
RESERVES (1,804 BILLION LIRE AT THE OLD PRICE OF \$35 PER OUNCE).  
WHAT IS OUR POINT OF VIEW ON THE ROLE OF GOLD? IS A  
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REVALUATION OF OUR RESERVES CONTEMPLATED? /A/. WE BELIEVE  
THAT MONETARY AUTHORITIES SHOULD FREELY BE ABLE TO PURCHASE  
AND SELL THEIR GOLD AMONG THEMSELVES AT A PRICE TO BE  
AGREED TO BILATERALLY FROM TIME TO TIME. OBVIOUSLY, THE PRICE  
WOULD BE CORRELATED WITH MARKET MOVEMENTS. ALSO, WE BELIEVE  
THAT THE GLOBAL STOCK OF MONETARY GOLD OF THE PRINCIPAL  
COUNTRIES SHOULD NOT INCREASE OVER TIME, I.E., THAT PURCHASES  
FROM THE MARKET SHOULD NOT EXCEED SALES IN THE MARKET BY  
CENTRAL BANKS. BY NOW, THIS POSITION IS WIDELY SHARED AMONG  
OTHER INDUSTRIAL COUNTRIES. HOWEVER, THE "ACCOUNTING"  
REVALUATION OF GOLD RESERVES IS A PROBLEM OF LITTLE IMPORTANCE  
TO ANY COUNTRY, INCLUDING OUR OWN. PROBABLY IT WILL BE USEFUL  
TO REVALUE GOLD RESERVES WHENEVER AGREEMENT HAS BEEN REACHED  
ON A NEW INTERNATIONAL MONETARY SYSTEM. THEN IT COULD  
CONSTITUTE ANOTHER PART OF THESE ARRANGEMENTS.

6. /CONFORMITY OF ITALIAN ANTI-RECESSION PACKAGE WITH EC/  
/RECOMMENDATIONS/. /Q/. SOME COMMENTATORS CLAIM THAT THE  
REVIVAL OF OUR ECONOMY THROUGH THE FAMOUS ANTI-RECESSION  
"PACKAGE" WAS DECIDED UPON UNILATERALLY. IN OTHER WORDS,  
THE CRITICISM IS THAT WE SHOWED OURSELVES TO BE EUROPEANS ONLY  
IN WORD, BUT NOT IN DEED. IS THIS TRUE? /A/. AS WAS STRESSED  
DURING PRELIMINARY TESTIMONY BEFORE THE FINANCE AND BUDGET  
COMMITTEE, THE "PACKAGE" WAS CONCEIVED WITHIN THE FRAMEWORK  
OF THE RECOMMENDATIONS MADE BY THE EC COMMISSION LAST JULY 23.  
THE RECOMMENDATIONS WERE THAT THE PRINCIPAL EFFORT FOR STIMU-  
LATING RECOVERY SHOULD BE MADE BY THE MEMBER STATES WHOSE  
BALANCE OF PAYMENTS, PRICE AND PUBLIC FINANCE POSITIONS BEST  
PERMITTED IT. FOR OTHER COUNTRIES, SUCH AS ITALY, MORE LIMITED  
MEASURES WERE SUGGESTED. IN FORMULATING THE PROVISIONS IN THE  
"PACKAGE," WE WERE INFLUENCED BY THESE DIRECTIVES. SO, IT DOESN'T

SEEM TO ME FAIR TO ALLEGE THAT WE ACTED ON OUR OWN.

7. /ITALIAN INTEREST RATE LEVELS/. /Q/. OUR INTEREST RATES  
REMAIN AMONG THE HIGHEST IN EUROPE. THIS DOESN'T SEEM TO BE  
VERY CONSISTENT WITH THE COORDINATION OF ECONOMIC POLICIES  
WHICH YOU TALK ABOUT. DO YOU THINK THAT CURRENT RATES ARE  
COMPATIBLE WITH THE FINANCIAL SOUNDNESS OF BUSINESS, OR DO YOU  
THINK THAT A CORRECTION IN THEIR LEVEL WILL BE NECESSARY IN  
THE NEAR FUTURE? /A/. ITALIAN INTEREST RATES HAVE BEEN  
RELATIVELY HIGH BECAUSE IT WAS NECESSARY TO PREVENT THE ADDITION  
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OF CAPITAL OUTFLOW TO THE ALREADY LARGE DEFICIT ON CURRENT  
ACCOUNT OF THE BALANCE OF PAYMENTS. IF YOU COMPARE INTEREST  
RATES WITH THE RATE OF INFLATION YOU WILL SEE THAT INTEREST  
RATES (IN REAL TERMS) ARE NEGATIVE. NEVERTHELESS, WE HAVE  
BEEN MOVING FOR SOME TIME TOWARD A MORE EXPANSIONARY MONETARY  
AND CREDIT POLICY IN ORDER TO REDUCE INTEREST RATES SO AS  
TO IMPROVE THE FINANCIAL POSITION OF BUSINESS. THE MEASURES  
THAT WE ARE TAKING THESE DAYS ARE ALSO AIMED, AMONG  
OTHER THINGS, AT THIS GOAL. IT IS FORESEEABLE THAT, AS A  
CONSEQUENCE, THERE WILL BE A FURTHER REDUCTION IN INTEREST  
RATES IN ITALY, ESPECIALLY IN THE EXPORT SECTOR.VOLPE

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